Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Telephone Companies	)	WC Docket No. 02-362
Tariff FCC Nos. 1 & 11,	)	
Transmittal No. 232	)	
	)	

ORDER DESIGNATING ISSUES FOR INVESTIGATION

Adopted: November 18, 2002 **Released: November 18, 2002**

Direct Case Due by: December 6, 2002
Oppositions to Direct Case Due by: December 20, 2002
Rebuttal Due by: December 27, 2002

By the Chief, Wireline Competition Bureau:

I. INTRODUCTION

1. Pursuant to section 204(a)(3) of the Communications Act of 1934, as amended (the Act),[1] the Verizon Telephone Companies (Verizon) filed Transmittal No. 232, revising certain provisions of their interstate access tariff FCC Nos. 1 and 11, to become effective August 24, 2002.[2] Verizon subsequently deferred the effective date of the subject revisions to September 4, 2002.[3] Verizon's tariff revisions introduce Packet At Remote Terminal Service (PARTS), an access service that uses Digital Subscriber Line (DSL) technology.[4]

2. Under PARTS, data traffic generated by a customer-provided modem is transported between an end-user's location and a remote terminal via an ordinary copper telephone line. The remote terminal sends and receives data via optical fiber connected to an optical concentration device (OCD) in the serving wire center.[5] The OCD sorts by customer all remote terminal data traffic and delivers it to each customer's collocation arrangement via a single cross-connect. PARTS is available only in wire centers that serve DSL-equipped remote terminals and only to customers that purchase physical or virtual collocation or otherwise establish collocation arrangements.[6]

---

[1] 47 U.S.C. § 204(a)(3).

[2] Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11 (filed Aug. 9, 2002).

[3] Verizon Telephone Companies Transmittal No. 236, Tariff FCC Nos. 1 and 11 (filed Aug. 23, 2002).

[4] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, Original Page 16-123.

[5] *See, e.g.*, *id.*

[6] *See, e.g.*, *id.*

(continued....)

3. On August 16, 2002, WorldCom, Inc. (WorldCom), and Covad Communications (Covad) filed petitions to reject, or, in the alternative, to suspend and investigate the Verizon tariff revisions.[7] On August 22, 2002, Verizon filed its reply.[8] On September 3, 2002, Covad filed a supplement to its petition.[9] On that same day, the Wireline Competition Bureau suspended Transmittal 232 for one day and set it for investigation.[10] Pursuant to our authority under sections 204(a) and 205(a) of the Act, in this Order we designate issues for the investigation of Verizon's Transmittal 232 and we direct Verizon to file additional information as described below.[11]

II. BACKGROUND

4. The xDSL (DSL) technology permits the transmission of data over copper telephone loops at significantly higher speeds than can be achieved by "dial-up" service. End users obtain high-speed Internet access services using DSL from Internet Service providers (ISPs) that, in turn, purchase DSL service from incumbent local exchange providers (LECs), such as Verizon, or from competitive LECs, such as petitioners Covad and WorldCom. Although there are a number of different types of DSL services, ADSL has been the service predominantly used to serve residential customers. If ADSL service is provided over all-copper facilities, it is generally subject to the limitation that an end user's loop must be less than 18,000 feet long. This has prevented DSL from being offered to all potential end-users and thus has impeded DSL deployment in more sparsely populated and remote locations.

5. New technologies allow DSL deployment at substantially greater distances. Specifically, next generation Digital Loop Carrier (NGDLC) systems facilitate the deployment of DSL to more remote customer locations. This NGDLC architecture enables carriers such as Verizon to extend the reach of their broadband networks to reach remote end-users. PARTS enables competitive carriers to use Verizon's NGDLC architecture to serve ISPs. Generally, in the absence of such an offering, carriers must collocate their own equipment in the remote terminal to provide DSL service. These carriers have found this to be prohibitively expensive and, accordingly, infeasible.[12] Because Verizon offers PARTS as a wholesale service to its DSL competitors, there is a danger that it will provision or price the service in a manner that discriminates in favor of itself over its competitors. Moreover, because PARTS may be the most practical method through which these carriers may serve remote customers, we must ensure that Verizon offers this service at just and reasonable rates so as not to raise its rivals' costs.[13] Accordingly, we investigate Verizon's PARTS offering.

(...continued from previous page)

[7] Verizon Telephone Companies Tariff FCC Nos. 1 & 11, Transmittal No. 232, WorldCom Petition to Reject or, in the Alternative, Suspend and Investigate (Aug. 16, 2002) (WorldCom Petition); Revisions by the Verizon Telephone Companies to Tariffs F.C.C. Nos. 1 and 11, Transmittal No. 232, Covad Communications Petition to Reject or, Alternatively, to Suspend and Investigate (Aug. 16, 2002) (Covad Petition).

[8] Verizon Telephone Companies Tariff FCC Nos. 1 & 11, Transmittal No. 232, Reply Comments of Verizon (Aug. 22, 2002) (Verizon Reply).

[9] Revisions by the Verizon Telephone Companies to Tariffs F.C.C. Nos. 1 and 11, Transmittal No. 232, Covad Communications Supplement to Petition to Reject or, Alternatively, to Suspend and Investigate (Sept. 3, 2002) (Covad Supplement).

[10] *Verizon Telephone Companies Tariff FCC Nos. 1 & 11, Transmittal No. 232*, DA 02-2140, Order (Wireline Comp. Bur. rel. Sept. 3, 2002).

[11] 47 U.S.C. §§ 204(a), 205(a).

[12] *See* Verizon Reply at 5 n.6; Covad Petition at 2 ("Covad has been unable to serve customers from remote terminals").

[13] *See Bell Atlantic Telephone Companies Revisions in Tariff FCC Nos. 1 and 11,* CC Docket No. 01-140, Order Designating Issues for Investigation, 16 FCC Rcd 12967, 12969-70, para. 5 (Common Carrier Bur. 2001).

III. ISSUES DESIGNATED FOR INVESTIGATION

6. We designate for investigation, as itemized in detail below, whether Verizon's rates for the PARTS offering are unreasonably high and unreasonably discriminatory in violation of sections 201(b) and 202(a) of the Act; whether Verizon's tariff revisions, including provisioning of the PARTS offering, are unjust, unreasonable, and unreasonably discriminatory in violation of sections 201(b) and 202(a) of the Act; whether the language of the tariff revisions is vague and ambiguous in violation of sections 61.2 and 61.54 of the Commission's rules; and whether Verizon is complying with its obligations to provide notice of network changes to affected carriers, under section 251(c)(5) of the Act and the Commission's implementing rules.[14] When Verizon provides information responsive to a particular paragraph, including supporting documents, Verizon is directed to segregate and mark the responsive information as "Responsive to Paragraph __," by paragraph listed below.

A. Reasonableness of Rates, Terms and Conditions

7. We take notice that SBC's "Project Pronto" offers what appears to be a service very similar to PARTS, using very similar architecture,[15] although Project Pronto was priced voluntarily in accordance with the total element long-run incremental cost (TELRIC) methodology. Because of the technical similarities between these services, it would be informative to compare Verizon's PARTS offering with SBC's Project Pronto offering. SBC's Project Pronto rates vary considerably from state to state, but for both recurring and non-recurring charges, SBC's rates appear to be significantly lower than those Verizon proposes for PARTS.[16] Although Verizon may demonstrate that its actual costs for PARTS service justify the much higher recurring and non-recurring rates it proposes, the fact that a major carrier voluntarily offers highly similar service at significantly lower rates raises obvious questions as to the reasonableness of Verizon's proposed rates. Although we have no basis to conclude that SBC's Project Pronto rates are necessarily set at just and reasonable levels, we tentatively conclude that SBC would not voluntarily offer these rates if they were unreasonably low. Verizon and other interested parties should respond to this tentative conclusion.

8. One distinction between SBC's and Verizon's pricing policy is that SBC voluntarily

---

[14] *See* 47 U.S.C. §§ 201(b), 202(a), 251(c)(5); 47 C.F.R. §§ 51.325, *et seq.,* 61.2, 61.54.

[15] *Compare* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11 (filed Aug. 9, 2002) *with* SBC Broadband Service CLEC Overview, Version 9.0; SBC Broadband Technical Publication. This Project Pronto information is available at the following web addresses: https://clec.sbc.com/clec/ . Once on "CLEC Online," click (on the left) on "CLEC Handbook." From the top scroll-down "CLEC Online" menu, under "Select Handbook State," select any state. Next, click (on the left) on "Products & Services," "Broadband Services," and "Broadband Services Overview." The Overview contains three documents. *See particularly* the SBC Broadband Service CLEC Overview, Version 9.0, accessible as "13-State Broadband Service Overview" ("Broadband Service Overview") and the 27-page document, which begins with a page titled "Technical Reference Notice," accessible as "Broadband Technical Publication". *See also* documents cited in n.16, *infra*. For ease of reference, these documents also will be filed in this docket as an *ex parte* filing by FCC staff.

[16] SBC states that its Project Pronto "Service will voluntarily be priced … in each state in accordance with the pricing methodology applicable to Unbundled Network Elements under Sections 251(c)(3) and 252(d)(1) of the Telecommunications Act of 1996, as it may change from time to time." SBC Broadband Service (BBS) Stand-Alone Agreement at 20 § 16.1, accessible at https://clec.sbc.com/clec/ . Once on "CLEC Online," click (on the left) on "CLEC Handbook." From the top, scroll-down "Choose Selection" menu, select "Interconnection Agreements." On the Interconnection Agreements site, click (on the left) on "Optional Appendices/Stand Alone Agreements." On the latter site, click, under "Services," on "Broadband Service-Stand-Alone Agreement." Project Pronto rates are summarized in a Broadband Service Stand-Alone Generic Pricing Appendix available at the following Web address:

https://clec.sbc.com/clec_documents/unrestr/interconnect/multi/standalone/Broadband%20Service%20Stand-Alone%20Pricing%20Appendix.doc

For ease of reference, these documents also will be filed in this docket as an *ex parte* filing by FCC staff.

chose to price "in accordance with the pricing methodology applicable to Unbundled Network Elements."[17] Verizon evidently did not so choose, but does claim to have priced PARTS on an incremental cost basis. As part of its Direct Case, Verizon shall identify which costs it included that would have been excluded under UNE pricing methodology.

9. Verizon is directed to compare and contrast PARTS rates and terms and conditions, including limitations on service offerings, with SBC's Project Pronto rates and terms and conditions. Verizon is asked to explain any differences between PARTS and Project Pronto. This explanation shall include, without limitation, why Verizon's proposal excludes certain terms offered under Project Pronto including constant bit rate (CBR) service and additional bandwidth offerings.

B. Cost Issues

10. Issue 1: Prospective PARTS customers complain that Verizon's rates for PARTS are unreasonably high.[18] We designate for investigation whether Verizon's rates for the PARTS offering are unreasonably high and unreasonably discriminatory in violation of sections 201(b) and 202(a) of the Act.[19]

11. Because PARTS is a new service, it is priced according to the new services test. Pursuant to the *BOC ONA Proceeding*,[20] and the *Part 69 ONA Order*,[21] the new services test is a cost-based test that establishes the direct cost of providing the new service as a price floor.[22] LECs then add a reasonable level of overhead costs to derive the overall price of the new service.[23]

12. Transmittal 232 contains both nonrecurring and recurring charges for private virtual connection (PVC) to each end user[24] and for the OCD connection to the customer's collocation space in

---

[17] *See* n. 16, *supra*. SBC's proposed this pricing for Project Pronto when it requested a modification of certain conditions imposed in connection with its 1999 merger with Ameritech. *See Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, Second Memorandum Opinion and Order, 15 FCC Rcd 17521 at 17537, 17554-55, para. 30, Appendix A at §§ 1-2 (2000) (*SBC Merger Waiver Order*).

[18] *See* Covad Petition at 8; WorldCom Petition at 3, 7-8; Covad Supplement at 2-4; Attachment to Letter from Praveen Goyal, Senior Counsel for Government & Regulatory Affairs, Covad, to Marlene H. Dortch, Secretary, FCC, at 1-3 (filed Sept. 13, 2002) (Covad Sept. 13 *ex parte*); Attachment to Letter from Alan Buzacott, Senior Manager, Regulatory Affairs, WorldCom, to Marlene H. Dortch, Secretary, FCC, at 1-3 (filed Sept. 18, 2002) (WorldCom Sept. 18 *ex parte*).

[19] *See* 47 U.S.C. §§ 201(b), 202(a).

[20] *Filing and Review of Open Network Architecture Plans*, CC Docket No. 88-2, Memorandum Opinion and Order, 4 FCC Rcd 1 (1988) (BOC ONA Order), *recon., Memorandum Opinion and Order on Reconsideration*, 5 FCC Rcd 3084, *further order*, 5 FCC Rcd 3103, *erratum*, 5 FCC Rcd 4045 (1990), *pets. for review denied, California v. FCC*, 4 F.3d 1505 (9th Cir. 1993); *Filing and Review of Open Network Architecture Plans*, Memorandum Opinion and Order, 6 FCC Rcd 7646 (1991), *Memorandum Opinion and Order on Reconsideration*, 8 FCC Rcd 97 (1993), *pet. for review denied*, *California v. FCC*, 4 F.3d 1505 (9th Cir. 1993) (collectively "*BOC ONA Proceeding*").

[21] *Amendment of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture*, CC Docket No. 89-79, Report and Order & Order on Further Reconsideration & Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524 (1991) (*Part 69 ONA Order*), *further recon.,* Memorandum Opinion and Order on Second Further Reconsideration, 7 FCC Rcd. 5235 (1992).

[22] *Part 69 ONA Order*, 6 FCC Rcd at 4531, para. 40-44.

[23] *Part 69 ONA Order*, 6 FCC Rcd at 4531, para. 44.

[24] The PVC is the PARTS path across the ATM transport layer from end-user location through the OCD. One PVC is required between the serving wire center and the end-user premises. *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, §§ 16.9.1 B. at Original Page 16-123, 16.9.2 C. at Original Page 16-124.

each PARTS serving wire center. PARTS is offered in three configurations that depend upon whether the end user purchases the underlying narrowband portion of the connection to the serving wire center. Under Configuration 3, there is a monthly recurring charge for the narrowband connection.[25]

1. Non-Recurring Charges.

13. Verizon shall show and explain the methodology by which it develops its proposed non-recurring charges. If Verizon intends to rely for cost support on information produced by a cost model, it must file that model, or at least those portions relevant to the tasks required for PARTS-related NRCs. If this model is based on a task time survey, Verizon must file the survey dataset, or those subsets ("groupings") used to develop PARTS-related task time estimates, and identify which data subset was relied upon for each task. Did Verizon use the model, or a model based upon the same task time survey dataset, that it used in the ongoing matter captioned *Petition of WorldCom, Inc., et al., Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration,* CC Docket No. 00-218, et al. and in recent state UNE proceedings? Verizon shall describe any differences between the latter model(s) and that used for tasks required for PARTS-related NRCs. Verizon must provide copies of all state commission decisions in proceedings in which Verizon introduced this model or any variation based on the same survey dataset.

14. To the extent not provided in the response to the previous paragraph, for each nonrecurring charge that recovers labor costs, Verizon must describe each labor function, provide the estimated number of hours required for each function, describe the method of estimation, and provide the estimated labor costs. Verizon must describe whether the estimated labor costs reflect only wages, wages plus benefits, wages plus benefits and loadings, or whether these costs are estimated on some other basis. If loadings are included in labor costs, Verizon must describe what portion of the reported wage rate is attributable to loadings. Verizon must include in its response (1) a detailed description of the process by which a port, cross-connect, or PVC order is installed, including all systems used and manual processes; (2) the activities that are included in the "Service Order," "Wire Center," "Provisioning," and "Field Installation" costs (columns A-D, Workpaper 2)[26] for both the Port Charge and the PVC Charge; (3) show the derivation of the "Service Order," "Wire Center," "Provisioning" and "Field Installation" costs and explain the extent to which Verizon's cost study assumes manual processes. In addition, Verizon shall specify the provisioning interval for each function.

15. In its Reply, Verizon contends that PARTS NRCs include "substantial additional field installation and provisioning costs" that are not involved with DSL service.[27] Verizon must explain what these costs are, and must describe in detail the process by which non-PARTS Infospeed DSL service is installed and contrast that installation process, step by step, with the PARTS installation process.

16. Verizon must explain in detail any investment or other non-labor direct costs included in its nonrecurring charges, including their magnitude and impact on non-recurring charges.

17. Verizon must answer the following questions: How many end users can be served by one line card? Is the PVC NRC calculated assuming field installation work for every PVC installation? For every incidence of churn? For purposes of responding to this question, "churn" is defined as any of the

---

[25] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 C. at Original Page 16-123; 16.9.5 C. at Original Page 16-127.

[26] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 2.

[27] Verizon Reply at 12.

following: (1) when an end-user changes its DSL vendor; or (2) when Verizon's competitive LEC customers subscribe to, terminate, or change their PARTS service. Verizon must explain in detail the cost benefit analysis it performed when it decided that line cards must be replaced with each incidence of churn.

18. Verizon must explain under precisely what circumstances the Configuration Change Charge, listed on Workpaper 2, is assessed.[28]

2. Recurring Charges.

19. According to Transmittal 232 and supporting materials, PARTS service utilizes discrete equipment which should be identifiable on an individual basis.[29] In responding to the issues designated for investigation below, for every instance in which Verizon intends to rely on information produced by a cost model instead of actual and planned expenditures, it must so state and demonstrate how the use of the cost model produces more accurate estimates of the costs of PARTS deployment than would be produced by an analysis of actual and planned expenditures.

20. Verizon must provide a copy of the cost study used in developing direct costs for the PARTS service, including an executable electronic version of the cost study. At a minimum, this study should identify unit investment, depreciation, cost of money, income taxes, maintenance expense, and administrative expense.

21. Verizon must explain how it developed the depreciation factors shown on Worksheets 7 and 8.[30]

22. Verizon must state whether other services offered by Verizon or a Verizon affiliate (such as, without limitation, voice services, Verizon broadband services, Infospeed DSL services offered in Verizon Tariff No. 20, or Internet access services) share the equipment and facilities used in the provision of PARTS. Verizon must list those services and describe the extent of sharing. Verizon must also explain how these equipment and facilities costs were allocated among these services, including what percentage of the costs were allocated to each such service, including PARTS.

23. Identify the costs for all land, buildings, administration, and maintenance expenses that are included in Verizon's investment cost allocation for PARTS.

24. **Optical Concentration Device**. Verizon's supporting materials (Workpapers 1, 4, and 5) indicate that an "optical concentration device" (OCD) is a key component used to provide PARTS and accounts for a large share of the costs of the service.[31] Verizon must identify the equipment it is using, or plans to use, to provide the OCD function. Specifically, what type (or types) of equipment (identified by manufacturer and model, including input/output modules) will be used to provide the OCD function? What equipment configuration assumptions were made? Will all PARTS service traverse newly acquired OCDs? Or will some use previously purchased equipment? Will an OCD serve remotes from more than

[28] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 2.

[29] *See, generally* Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232.

[30] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpapers 7 & 8.

[31] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpapers 1, 4, & 5.

one host CO switch, or will each OCD only serve the remotes served by one CO host? If not answered above, what other services, if any, can the equipment to be used for the OCD function support? What other services does Verizon plan to support with this equipment? How did Verizon allocate OCD costs among the various services to be supported with this equipment? If more than one OCD is deployed in a wire center, can a competitive LEC customer access all OCDs via a single OCD port?

25. **Unit Investment**. Verizon must detail the development of each of the "unit investment" figures in Workpaper 5,[32] including any cost models used to produce these figures, and itemize and justify all "loadings" or factors applied to original investments to produce "unit investment." Verizon must also show and justify assumed fill/utilization factors, and application of annual charge factors. Verizon must further separately explain how it determined the unit investments for each type of charge (e.g., OCD Ports, PVCs of various capacities, and Line) by applicable line item (e.g., Digital Switch, Land, Building, Cxt Digital SPG, Pole, Conduit, Aerial Fiber/Metallic, Underground Fiber/Metallic, Buried Fiber/Metallic) listed on Workpaper 5.

26. For equipment, Verizon must: (1) itemize the equipment purchased (type, make, model); (2) identify the Part 32 account for each equipment item and depreciation life; (3) indicate when (month/year) each such piece of equipment was purchased and provide documentation including vendor contracts or invoices; (4) indicate the amount Verizon paid for the the equipment and itemize and justify all "loadings" and/or "factors" applied in calculating unit investment; (5) indicate whether the equipment was purchased exclusively for PARTS; (6) indicate whether the equipment was purchased for other purposes besides or in addition to PARTS, specifying what those other purposes are and how the costs were allocated between PARTS and each of the other services; (7) if an engineered, furnished and installed (EF&I) factor was applied to the materials furnished for PARTS, identify the factor and explain how it was developed; and (8) provide documentation including vendor contracts or invoices for labor.

27. **Demand Forecast.** Verizon states that it bases its demand forecast for PARTS service, shown on Workpaper 3, upon Product Management estimates.[33] Verizon must provide detailed work papers demonstrating the development of its demand assumptions for each item on Workpaper 3. Verizon must explain the time period for which its demand estimates are prepared. Verizon must explain its forecasted demand for PARTS for the first three years after deployment, including its forecasted churn rate for each year. For purposes of responding to this question, "churn" is defined as any of the following: (1) when an end-user changes its DSL vendor; (2) when Verizon's competitive LEC customers subscribe to, terminate, or change their PARTS service. Verizon must itemize its forecast by individual charges and must explain with particularity each of its assumptions, including the basis of its churn rate assumptions. Does Verizon's demand assumption differ from its forecast for Infospeed or is Verizon applying the same demand and churn forecasts for PARTS as for Infospeed?

28. Verizon must explain the percentage of PARTS-capable ports and PVCs that it estimated would be sold to Verizon's, or a Verizon-affiliate's, retail customers when it forecasted demand.

29. For each wire center in which PARTS was initially deployed in September 2002, Verizon must provide specific information as to how many remote terminals were PARTS-capable per OCD. Once Verizon deployed PARTS for any single remote terminal served by an OCD in a wire center, did it make PARTS available to all remote terminals served through that wire center? Provide specific information for each wire center in which PARTS was deployed in September 2002. If Verizon did not

[32] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 5; *see also* Workpaper 4 (describing Workpaper 5 as "Unit Investment").

[33] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 3.

make all such remote terminals PARTS capable, provide specific information as to the percent of remote terminals per wire center that were PARTS capable and that were not PARTS capable. In the future, once Verizon makes any remote terminal PARTS-capable, will it simultaneously make all remote terminals that are served through the same wire center PARTS-capable? If not, when will it make such remote terminals PARTS-capable and what factors will determine whether and when it does so?

30. Verizon states that, although initial roll-out of PARTS will occur in the Verizon East operating territories, it plans to extend availability to the Verizon West territories and that costs were developed on a total Verizon basis to support nationwide pricing. When and where does Verizon forecast it will deploy PARTS in the Verizon West territories? Using its forecasted demand, Verizon is directed to demonstrate what properties of demand, and therefore investment, are associated with the West.

31. Verizon must provide a frequency distribution showing its third year forecasted demand for PVCs by wire center. (Verizon's response should show, *e.g.*, "X" number of wire centers will have a demand for "A" PVCs, "Y" wire centers will have a demand for "B" PVCs, etc., where X, A, Y, and B are numbers). Verizon may answer this question by providing a frequency table with the horizontal axis measuring the projected number of wire centers and the vertical axis measuring the projected number of PVCs. If, when more than one OCD is deployed in a wire center, a competitive LEC customer cannot access all OCDs via a single OCD port, Verizon should answer this question showing its third year forecasted demand for PVCs by OCD instead of by wire center.

32. **PVC costs**. With specific reference to the PVC costs itemized on Workpaper 4,[34] Verizon must explain and justify why PVC costs vary by bandwidth. Also, Verizon must explain whether PVC costs include fiber, pole, and conduit costs. Specifically, if these are included, Verizon must explain why these costs are not already recovered through local exchange rates and the subscriber line charge (under Configuration 1) or under state-established UNE loop rates (under Configuration 2). With respect to PVC costs, were line card costs based on the entire line cards investments, or on only the incremental cost over POTS line cards?

33. **OSS Expense**. With respect to Workpaper 4,[35] Verizon must explain and show how it determined the claimed OSS expense for each PVC Charge (lines 18, 29, 40, 51) and show how that cost was developed. Verizon should describe the systems purchased or modified, the function of these systems, and the describe modifications undertaken. Verizon should explain why the OSS costs are assigned to the PVC element. Are these OSS costs specific to PARTS? If not, Verizon should show how these costs are allocated between PARTS and the other services.

34. **Overhead costs.** WorldCom objects to Verizon's overhead loading factors.[36] To enable the Commission to evaluate the reasonableness of overhead amounts included in PARTS rates, Verizon must provide the following information regarding the overhead loadings for PARTS and comparable services: Verizon must provide the overhead factors[37] used for each PARTS rate element, identify the cost basis for these factors, explain how the factors were derived from that basis, and justify the reasonableness of the factors.[38] Verizon should also provide numbers used to compute the factors and

[34] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 4.

[35] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 4.

[36] *See* Attachment to WorldCom Sept. 18 *ex parte* at 2.

[37] For purposes of this request, an overhead factor is the ratio of a service's tariffed rate to its direct cost.

[38] In addition, Verizon should justify any "rounding" of costs included in the filed rates.

provide sources from which these numbers were derived. To the extent that overheads vary among PARTS rate elements, Verizon must explain the basis for the variation.

35. As WorldCom notes, under Commission Rule 61.49(f)(2), loop-based services may not "recover more than a just and reasonable portion of the carrier's overhead costs."[39] WorldCom argues that, in determining a just and reasonable portion of overhead costs to be attributed to services offered to competitors, Verizon must justify the methodology used to determine such overhead costs.[40] Specifically, Verizon must demonstrate that it does not recover a greater share of overhead from PARTS than from "comparable services," such as Infospeed.[41] Verizon must (1) compute the direct costs for Tariff FCC No. 20 Infospeed services using the same methodology and ACFs used in the PARTS cost study; (2) subtract those costs from the lowest rates charged for comparable services, taking into account all volume and term discounts. If the overhead loading factor for PARTS exceeds the lowest overhead loading factor that results from this calculation, explain how that is reasonable.

36. **Configuration 3 Line Charge**. With specific reference to the Configuration 3 line charge on Workpaper 4,[42] Verizon must explain whether its loop cost study assumes only PARTS-capable loops or all Verizon loops. Verizon must explain the loop price it uses for Configuration 2 and then compare that price to the $32 Configuration 3 Line Charge and explain why that charge, which appears to recover only distribution costs, is significantly higher than the loop price used for Configuration 2. Verizon must justify the Configuration 3 Line Charge and explain how it is reasonable to charge a higher loop rate for data only services than for voice and data services combined.

C. Terms and Conditions

37. Issue 2: Prospective PARTS customers complain that the terms and conditions for PARTS are unjust, unreasonable and unreasonably discriminatory.[43] We designate for investigation whether Verizon's tariff revisions, including provisioning of the PARTS offering, are unjust, unreasonable, and unreasonably discriminatory in violation of sections 201(b) and 202(a) of the Act.[44]

1. Service Classes/Transmission Rates

38. Potential PARTS customers complain that Verizon unreasonably limits PARTS to one PVC per end user line, unreasonably limits PARTS service classes, and unreasonably limits PARTS transmission rates.[45] Verizon states in its tariff revisions that "[o]ne Permanent Virtual Circuit (PVC) per service arrangement is supported" and further states that "PARTS supports an Unspecified Bit Rate

---

[39] *See* Attachment to WorldCom Sept. 18 *ex parte* at 3 (citing 47 C.F.R. § 61.49(f)(2)).

[40] *See* Attachment to WorldCom Sept. 18 *ex parte* at 3 (citing *Wisconsin Public Service Commission*, CCB/CPD No. 00-1, Order Directing Filings, 15 FCC Rcd 9978, 9982, para. 11 (2000) (*Bureau Payphone Order*) (citing *Part 69 ONA Order*, 6 FCC Rcd at 4531, para.44), *rev. granted*, 17 FCC Rcd 2051 (2002)).

[41] *See* Attachment to WorldCom Sept. 18 *ex parte* at 3.

[42] *See* Verizon Telephone Companies Transmittal No. 232, Tariff FCC Nos. 1 and 11, Description and Justification at Workpaper 4.

[43] *See* WorldCom Petition at 4-7; Letter from Patrick H. Merrick, Director, Regulatory Affairs, AT&T Federal Government Affairs, to Marlene H. Dortch, Secretary, FCC, at 1-2 (filed Sept. 18, 2002) (AT&T Sept. 18 *ex parte*); Attachment to Covad Sept. 13 *ex parte* at 3-5; Attachment to WorldCom Sept. 18 *ex parte* at 4.

[44] *See* 47 U.S.C. §§ 201(b), 202(a).

[45] *See* Covad Petition at 4-5; WorldCom Petition at 9; Attachment to Covad Sept. 13 *ex parte* at 4; *see also* 47 U.S.C. §§ 201(b), 202(a).

quality of service on an ATM Port connected to the Customer's collocation arrangement."[46] Verizon's tariffs also provide that "[f]our types of PARTS will be available based on the downstream and upstream speed combinations selected by the Customer," but the downstream and upstream data rates are symmetrical for only one such class of service.[47] This raises concerns because symmetrical data rates are important in many user applications. For example, telecommuting workers need symmetrical rates in order to upload, or transmit, data sent from their home office at the same rate they can download information sent to them.

39. SBC's Project Pronto appears to offer more flexibility with respect to each of these forms of service.[48] Verizon must explain whether there are technical reasons for these service limitations for PARTS. If the limitations are not entirely attributable to technical considerations, why are these service limitations imposed? If Verizon intends in the future to support additional PVCs per end user, CBR or VBR service, or additional symmetrical transmission rates in conjunction with PARTS, when does Verizon plan to make each of these services available?

2. Configuration Two

40. In Configuration Two, the end-user subscribes to both voice grade and data service from the Customer. Does Configuration Two support service to the Customer through Verizon-provided UNE-loops, UNE-Platform (UNE-P)[49] or other service arrangement? Can a customer obtain PARTS service under Configuration 2 in conjunction with UNE loops, UNE-P, or other service arrangement? If not, why not? Verizon must explain in detail the limitations associated with provisioning dial tone service through UNE-loops and UNE-P. If there are no limitations, but there are restrictions on the availability of these service arrangements in conjunction with Configuration 2, Verizon must explain why. If Verizon intends to support UNE loop or UNE-P service in conjunction with PARTS in the future, when does Verizon plan to make that service available?

3. DS3

41. Verizon's tariff revisions limit the PARTS ATM ports to DS3 or OC3.[50] Is there a technical reason that a DS3 rather than DS1 is required? Verizon must explain in detail the technical limitations associated with deploying PARTS through a DS1 ATM port, instead of a DS3 ATM port. If there are no technical limitations, why is PARTS made available only with a DS3 or OC3? Verizon must analyze the differences in costs using a DS3 v. a hypothetical DS1 for PARTS. Support these numbers with investment costs and show the calculation. Assuming a DS3 is used, how many months after deployment does Verizon anticipate filling the capacity of the OCD on the trunk side? Assuming a DS1 is used, how many months after deployment does Verizon anticipate filling the capacity of the OCD on the trunk side?

---

[46] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 B. at Original Page 16-123.

[47] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 D. at Original Page 16-124.

[48] *See, e.g.,* SBC Broadband Service (BBS) Stand-Alone Agreement at 11-12 § 5.6.3; Technical Reference Notice," accessible as "Broadband Technical Publication" at 8-9 § 2.2.4; *see also* nn. 15-16, *supra*.

[49] UNE-P is a combination of unbundled loop, switching and transport elements. *See, e.g., Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, Third Report and Order and Fourth Further Notice of Proposed Rulemaking, 15 FCC Rcd 3696, 3702-03, para. 12 (1999)(subsequent history omitted).

[50] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 B. at Original Page 16-123.

4. Term Commitments

42. According to Verizon's tariffs, PARTS ATM ports are subject to a minimum service commitment of 12 months. If a port is disconnected prior to the expiration of the minimum service commitment period, termination liability charges apply equal to the monthly rate times the number of months remaining in the initial twelve-month minimum service period.[51] Since Verizon will utilize the same architecture that serves PARTS to provision service to its own customers, Verizon must demonstrate why a term commitment is necessary.[52] Verizon is directed to "price-out" alternative monthly offerings for a DS1 port and separately for a DS3 port, with no associated termination liability. Verizon must explain these alternative monthly charges, and must identify and explain its assumptions.

5. Collocation requirement

43. PARTS is available only to customers that purchase physical or virtual collocation or otherwise establish collocation arrangements.[53] Is there a technical reason that customers must be collocated in order to purchase PARTS? Verizon must explain in detail the technical limitations associated with deploying PARTS in conjunction with interoffice transport, instead of collocation. If there are no technical limitations, why is PARTS made available only to customers who are collocated?

D. Disclosure of PARTS Availability

44. Issue 3: Prospective PARTS customers complain that they are unable to determine where and when PARTS is or will be deployed.[54] We designate for investigation whether the language of Verizon's tariff revisions, including information concerning provisioning of the PARTS offering, is vague and ambiguous in violation of sections 61.2 and 61.54 of the Commission's rules, or unjust, unreasonable, and unreasonably discriminatory in violation of sections 201(b) and 202(a) of the Act; and whether Verizon is complying with its obligations to provide notice of network changes to affected carriers under section 251(c)(5) of the Act and the Commission's implementing rules.[55]

45. Verizon's tariffs state, "PARTS is available only to locations served by DSL-equipped remote terminals and serving wire centers."[56] However, Verizon does not list these locations in its tariffs. Verizon must explain in detail how a customer who reviews the tariffs can ascertain the location of these remote terminals and the wire centers that serve them.[57]

46. In its tariffs, Verizon states that PARTS will be provided "subject to the availability and limitations of Company facilities and systems."[58] Verizon must describe in detail the "limitations of

---

[51] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.3 C. at Original Page 16-125. We note that a DS3, which is a PARTS-required transmission interface for the cross-connection from the OCD to the collocation cage, is also subject to minimum service term. *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, § 19.2.1 at 1st Revised Page 19-4.

[52] *See* Attachment to Covad Sept. 13 *ex parte* at 3.

[53] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 A. at Original Page 16-123.

[54] *See* Covad Petition at 6-7; AT&T Sept. 18 *ex parte* at 2; Attachment to Covad Sept. 13 *ex parte* at 4-5; Attachment to WorldCom Sept. 18 *ex parte* at 4.

[55] *See* 47 U.S.C. §§ 201(b), 202(a), 251(c)(5); 47 C.F.R. §§ 51.325, *et seq.,* 61.2, 61.54.

[56] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.1 A. at Original Page 16-123.

[57] *See* 47 C.F.R. §§ 61.2, 61.54.

[58] *See, e.g.*, Verizon Telephone Companies Tariff FCC No. 1, Transmittal No. 232, § 16.9.3 A. at Original Page 16-125.

Company facilities and systems" and any other criteria that determine where PARTS will be made "availabl[e]." Verizon must also demonstrate how it provides public notice of PARTS deployment, including how much advance notice it provides, where and how that information is made available, and the precise information it makes available concerning the wire centers and remote terminals where PARTS will deployed and when such deployment will occur.[59] Does Verizon's notice provide information about which end-user addresses are served through PARTS-equipped remote terminals? Verizon must explain how potential PARTS customers can ascertain the end-user population that is reachable by PARTS. Does Verizon impose a charge above and beyond those specified in its PARTS tariffs before it will provide this information? If any of this information is subject to change, how much advance notice does Verizon provide?

47. Potential PARTS customers also complain that Verizon's advance knowledge about which facilities will be made PARTS-capable enables it to market broadband services to its own customers and gain competitive advantage over potential PARTS customers.[60] Does Verizon market services utilizing the same facilities used to provide PARTS to its own retail customers in advance of the time it gives public notice of PARTS availability?[61] At what point in its marketing schedule for services utilizing PARTS facilities does Verizon give public notice of PARTS availability? Verizon must provide specific information as to when it began marketing services that utilize PARTS facilities to its own retail customers and it must show when it gave public notice of PARTS availability for those facilities.

IV. PROCEDURAL MATTERS

A. Filing Schedules

48. This investigation is designated WC Docket No. 02-362. The Verizon Telephone Companies (Verizon) is designated a party to this investigation. Verizon shall file its direct case no later than December 6, 2002. The direct case must present Verizon's position with respect to the issues described in this Order. Pleadings responding to the direct case may be filed no later than December 20, 2002, and must be captioned "Oppositions to Direct Case" or "Comments on Direct Case." Verizon may file a "Rebuttal" to oppositions or comments no later than December 27, 2002.

49. An original and four copies of all pleadings shall be filed with the Secretary of the Commission. In addition, parties shall serve with three copies: Pricing Policy Division, Wireline Competition Bureau, 445 12th Street, S.W., Room 5-A104, Washington, D.C. 20554, Attn: Margaret Dailey. Parties shall also serve with one copy: Qualex International, Portals II, 445 12th Street, S.W., Room CY-B402, Washington, D.C. 20554, (202) 863-2893. Members of the general public who wish to express their views in an informal manner regarding the issues in this investigation may do so by submitting one copy of their comments to the Office of the Secretary, Federal Communications Commission, 445 12th Street, S.W., Room TW-A325, Washington, D.C. 20554. Such comments should specify the docket number of this investigation, WC Docket No. 02-362. Parties are also strongly encouraged to submit their pleadings via the Internet through the Electronic Comment Filing System at <http://www.fcc.gov/e-file/ecfs.html>. Generally, only one copy of an electronic submission must be filed. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket number, which in this instance is WC Docket No. 02-362. Parties may also submit an electronic comment via Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to <ecfs@fcc.gov>, and should include the following

---

[59] *See* 47 U.S.C. § 251(c)(5); 47 C.F.R. §§ 51.325, *et seq*.

[60] *See* AT&T Sept. 18 *ex parte* at 2; Attachment to Covad Sept. 13 *ex parte* at 4-5; Attachment to WorldCom Sept. 18 *ex parte* at 4.

[61] *See* 47 U.S.C. § 251(c)(5); 47 C.F.R. §§ 51.325, *et seq*.

words in the body of the message: "get form <your e-mail address>." A sample form and directions will be sent in reply.

50. Interested parties who wish to file comments via hand-delivery are also notified that effective December 18, 2001, the Commission will only receive such deliveries weekdays from 8:00 a.m. to 7:00 p.m., via its contractor, Vistronix, Inc., located at 236 Massachusetts Avenue, NE, Suite 110, Washington, DC 20002. **The Commission no longer accepts these filings at 9300 East Hampton Drive, Capitol Heights, MD 20743.** Please note that all hand deliveries must be held together with rubber bands or fasteners, and envelopes must be disposed of before entering the building. In addition, this is a reminder that as of October 18, 2001, the Commission no longer accepts hand-delivered or messenger-delivered filings at its headquarters at 445 12th Street, SW, Washington, DC 20554. Messenger-delivered documents (*e.g.*, FedEx), including documents sent by overnight mail (other than United States Postal Service (USPS) Express and Priority Mail), must be addressed to 9300 East Hampton Drive, Capitol Heights, MD 20743. This location is open weekdays from 8:00 a.m. to 5:30 p.m. USPS First-Class, Express, and Priority Mail should be addressed to the Commission's headquarters at 445 12th Street, SW, Washington, DC 20554. The following chart summarizes this information:

TYPE OF DELIVERY	PROPER DELIVERY ADDRESS
Hand-delivered paper filings	236 Massachusetts Avenue, NE, Suite 110, Washington, DC 20002 (Weekdays - 8:00 a.m. to 7:00 p.m.)
Messenger-delivered documents (*e.g.*, FedEx), including documents sent by overnight mail (this type excludes USPS Express and Priority Mail)	9300 East Hampton Drive, Capitol Heights, MD 20743 (Weekdays - 8:00 a.m. to 5:30 p.m.)
USPS First-Class, Express, and Priority Mail	445 12th Street, SW Washington, DC 20554

51. All relevant and timely pleadings will be considered by the Commission. In reaching a decision, the Commission may take into account information and ideas not contained in pleadings, provided that such information, or a writing containing the nature and source of such information, is placed in the public file, and provided that the fact of reliance on such information is noted in the order.

Ex Parte Requirements

52. This investigation is a permit-but-disclose proceeding and is subject to the requirements of section 1.1206(b) of the Commission's rules, 47 C.F.R. § 1.1206(b). Persons making oral *ex parte* presentations are reminded that memoranda summarizing the presentations must contain a summary of the substance of the presentation and not merely a listing of the subjects discussed. More than a one- or two-sentence description of the views and arguments presented is generally required.[62] Other rules pertaining to oral and written presentations are also set forth in section 1.1206(b).

53. Interested parties are to file any written *ex parte* presentations in this proceeding with the Commission's Secretary, Marlene Dortch, 445 12th Street, S.W., TW-B204, Washington, D.C. 20554, and serve with three copies: Pricing Policy Division, Wireline Competition Bureau, 445 12th Street, S.W., Room 5-A104, Washington, D.C. 20554, Attn: Margaret Dailey. Parties shall also serve with one copy: Qualex International, Portals II, 445 12th Street, S.W., Room CY-B402, Washington, D.C. 20554, (202) 863-2893.

[62] *See* 47 C.F.R. §1.1206(b)(2).

Paperwork Reduction Act

54. This order designating issues for investigation contains no new or modified information collections subject to the Paperwork Reduction Act of 1995, Pub. Law 104-13.

ORDERING CLAUSES

55. ACCORDINGLY, IT IS ORDERED that, pursuant to sections 4(i), 4(j), 201-205, and 403 of the Communications Act, 47 U.S.C. §§ 154(i), 154(j), 201-205, and 403, and pursuant to the authority delegated by sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, the issues set forth in this Order ARE DESIGNATED FOR INVESTIGATION.

56. IT IS FURTHER ORDERED that the Verizon Telephone Companies SHALL BE a party to this proceeding.

57. IT IS FURTHER ORDERED that the Verizon Telephone Companies SHALL INCLUDE, in its direct case, a response to each request for information that it is required to answer by this Order.

FEDERAL COMMUNICATIONS COMMISSION

William F. Maher, Jr.
Chief, Wireline Competition Bureau